Management Board of Cabinet

OPS Management Series

Ontario's Expenditure Management Process

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The Management Cycle

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Preface

In March 1980, Cabinet approved the establishment of the Management Standards Project within the Management Board Secretariat. The project's mandate, to lay the groundwork for further improving management in government, includes developing a publication series which contains descriptions of management processes in the Ontario Government.

The purpose of this booklet is to describe the government-wide process for expenditure management. It is intended to provide an overview of the process for all managers in the Ontario Public Service, and may be useful in management training and development programs. It is not intended to be fully comprehensive or a technical "how to" booklet for managers or analysts who are directly involved in the process.

It is hoped that this information will help managers to understand the aims, mechanisms, and procedures of expenditure management beyond the context of their own ministry; and, in conjunction with other booklets in this series, will assist them in improving their effectiveness as public service managers.

This booklet is different from many others in the Ontario Principles and Standards of Management series, in that it does not prescribe standards for ministry processes. It is intended for education and information purposes only, and is therefore descriptive in nature.

The Management Standards Project gratefully acknowledges the contributions of those responsible for the preparation of this booklet.

February 1983

1. Introduction

In a Parliamentary system, the government is responsible to the Legislature for the allocation and use of public funds. The government is expected to establish and maintain effective control over spending decisions, and provide at regular intervals, a complete accounting for past expenditures. The Ontario Government satisfies these requirements through the use of an expenditure management process which has four main phases:

1. Financial and manpower resource allocation
2. Preparation and approval of ministry expenditure Estimates;
3. In-year monitoring and adjustment (if required) of the Estimates; and
4. Year-end reporting.

These four sequential phases represent a cycle that is repeated every fiscal year. The basic pattern and steps are the same from year to year, and most activities take place at predetermined times of the year. The timing of some steps may change in response to social, economic and political conditions that have a bearing on the process.

Participants involved in the Government-wide expenditure management include: central agency staff, ministry managers, Cabinet Ministers, and Members of the Legislature. All have specific roles in the process, which are described in subsequent pages of this booklet.

2. Summary of the Process

In the context of the management cycle (shown on the inside front cover) Ontario's expenditure management process is related to the second and fifth functions, "Plan and Allocate" and "Monitor and Maintain Direction."

The first two phases of the expenditure management process are related to the planning and allocating function.

- In the financial and manpower resource allocation phase, decisions are made on the total amount of Government spending for the coming fiscal year and the distribution of these funds among the various ministries and programs. These decisions are guided by the Government's policy thrusts and priorities.

- In the Estimates phase, ministries develop detailed spending plans for the coming fiscal year and present them for scrutiny and approval by Cabinet and the Legislature. The Estimates set out for each ministry program and activity the financial and manpower resources required and explain to Management Board the results that are to be achieved through the use of these resources.

The third and fourth phases of the expenditure management process are related to the function of monitoring and maintaining direction.

- In-year monitoring indicates whether performance remains consistent with planned results and spending. If discrepancies are observed, adjustments may be made to ministry Estimates with the approval of Management Board (Management Board Orders) or the Legislature (Supplementary Estimates).

- Year-end reporting provides an accounting for actual expenditures during the fiscal year and compares the results achieved with those planned.

Linkages with Ministry Management Processes

Each of the four phases of the government-wide expenditure process is related to specific ministry-level management processes.

The financial and manpower allocation phase is closely linked to the ministry processes of strategic planning, policy development and priority planning. These processes result in the proposal of policy and program changes to Cabinet and its committees. The allocation phase, in turn, provides the financial and manpower targets as the basis for ministry operational planning and budgeting.

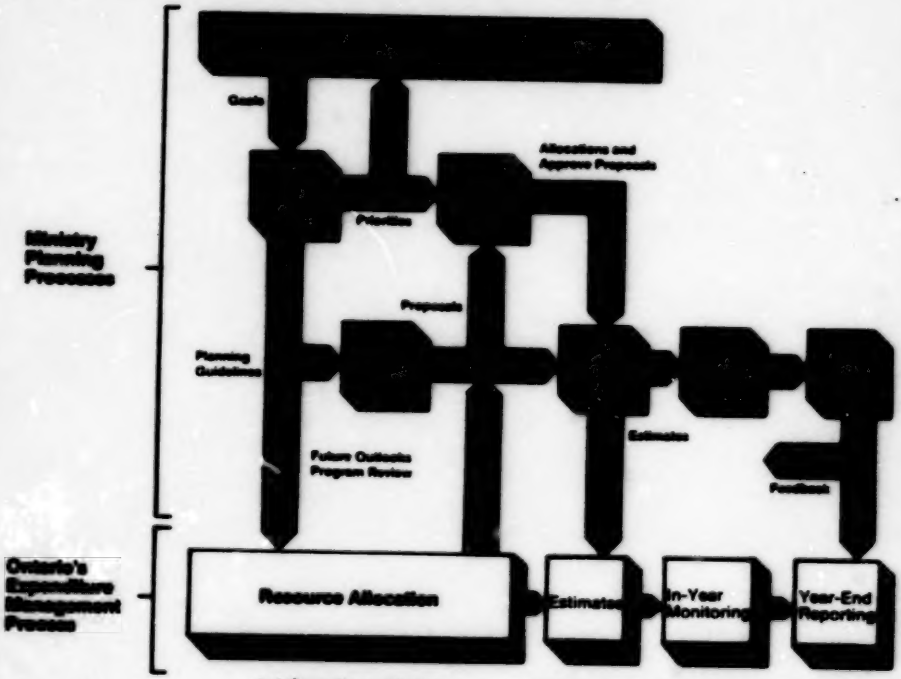
Ministry operational plans are used in preparing the expenditure Estimates and the statements of results which the ministry plans to achieve for each program (known as results plans).

Ministry financial and results reporting is the basis for in-year monitoring of expenditures and the "results for resources" which are achieved. Year-end reporting of expenditures and results within ministries forms the basis for reporting to central agencies and the financial reporting of the Government to the Legislature in the form of the Statement of Public Accounts.

The relationships between these ministry processes and the four phases of the government-wide expenditure management process are illustrated in Figure 1

Ministry managers are involved at many stages of the expenditure management process. The activities carried out in each phase and the steps which ministry managers participate in are described in the pages that follow.

Figure 1 Ministry Planning Processes and Ontario's Expenditure Management Process



3. Financial and Manpower Resource Allocation

The purpose of the allocation phase is to determine ministry expenditure allocations within the context of the Government's fiscal strategy for the year. The allocation phase consists of three main steps:

1. Information gathering,
2. Development of the fiscal strategy, and
3. Finalization of allocations.

Participants involved in this phase of the expenditure management process include the following central agencies:

- Cabinet, which approves the Government's fiscal strategy and proposed expenditure allocations;
- the Policy and Priorities Board, which reviews proposals before they are presented to Cabinet;
- the Ministry of Treasury and Economics, which prepares the fiscal strategy and recommends expenditure allocations;
- the Management Board Secretariat which develops information on expenditure levels and their impact on results; and
- The Policy Field Committees and Secretariats, which may provide preliminary information about funding requirements for the ministries in their respective fields, and which respond to proposed funding levels on behalf of those ministries.

The entire allocation phase is coordinated by Cabinet Office.

Ministries may be consulted about their funding requirements for the coming year and are generally given an opportunity to respond to proposed allocations before these are finalized by Cabinet. Ministry managers prepare breakdowns of the allocations into detailed expenditure plans and results abstracts through involvement in the ministry's planning and budgeting processes.

Step 1: Information Gathering
In the spring of each year, the Ministry of Treasury and Economics prepares a Fiscal Policy Options report, based on an analysis of current and anticipated economic conditions. Initially, the Treasurer consults the Premier about the general direction of the report. Treasury staff then prepare the document for consideration by the Policy and Priorities Board. The report usually includes:

- an assessment of the expected performance of the Canadian and Ontario economies for the current and coming fiscal years;

- a review of the Ontario Budget performance in the current fiscal year; and

- alternative scenarios for the coming fiscal year, including expenditure targets, a revenue forecast, the resulting deficit or surplus, and financing options if required.

Concurrently, the Management Board Secretariat develops the Expenditure Planning Forecast for the coming fiscal year, based on current policies and programs. The Forecast provides input to the Treasurer's fiscal strategy and is used in developing preliminary allocations in Step 2. It may reflect adjustments to the current Estimates arising from the elimination or termination of programs, changes in workload, or recently approved changes in funding levels. Depending on the annual design of the resource allocation phase, ministries may be consulted to obtain the necessary information.

The Policy Field Secretariats also may be consulted during this phase. For example, one year, the information-gathering phase included a centrally directed series of program reviews, undertaken by teams of representatives drawn from ministries, the Policy Field Secretariats, Treasury and Economics, the Management Board Secretariat, and Cabinet Office.

The Fiscal Policy Options Report and other pertinent information are considered by the Policy and Priorities Board and Cabinet, and sets direction for Step 2.

Step 2: Development of the Fiscal Strategy

Concurrent with Step 1, the Treasurer develops a recommended fiscal strategy which includes: establishing expenditure targets for each ministry and policy field, setting revenue targets, and identifying appropriate surplus or deficit levels. The expenditure targets are developed by the Treasurer with input from Cabinet Office and the Management Board Secretariat.

The Secretariat also prepares a Manpower Strategy report, which indicates the manpower change anticipated in light of the Expenditure Planning Forecast.

The fiscal strategy, expenditure targets and manpower strategy are forwarded to the Policy and Priorities Board and then to Cabinet for approval in late summer or early fall. This step concludes when Cabinet approves the preliminary expenditure targets for each Ministry.

Step 3: Finalization of Allocations

In the third step, ministries respond to the proposed funding levels set out in the expenditure targets. Ministries in the policy fields respond through their Policy Field Secretariat; other ministries respond to the Chairman of Management Board. In their responses, ministries define any program terminations, reductions, initiatives, and enrichments that are envisaged and assess the probable impact of the funding proposals.

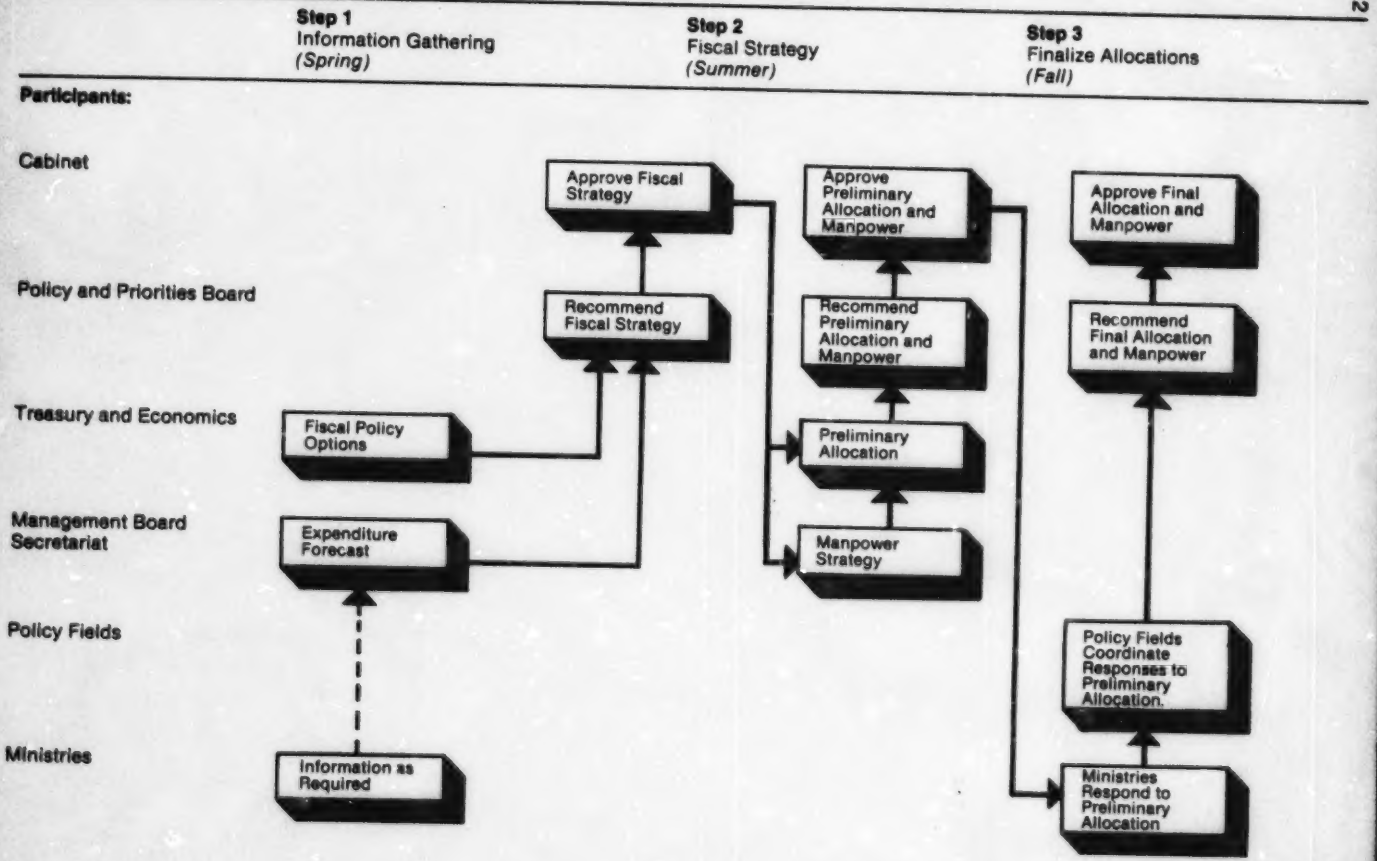
The ministry responses are reviewed by the Policy and Priorities Board, whose membership includes the Premier, the Deputy Premier, the Treasurer, the Chairman of Management Board, the Minister of Intergovernmental Affairs and the Secretaries of the Policy Fields. The Board identifies and discusses the full implications of the allocations and the ministries' responses. Adjustments such as incorporating Ontario Budget initiatives, are made as required, and final recommendations are prepared for Cabinet approval. Approved expenditure allocations are normally communicated to ministries late in the calendar year. This concludes the allocation phase of the expenditure management process, which is illustrated in Figure 2.

The Role of Ministry Managers

Throughout the allocation phase, ministries assess their priorities and strategic direction, develop plans for the coming fiscal year, and review their budget requirements. This puts them in a position to support the decision-making by central agencies by supplying accurate information when it is required.

During the third step, ministries are directly involved in responding to proposed allocations. It is important that planning for the coming fiscal year be sufficiently advanced to permit ministries to assess the implications of the proposed funding level for all programs and activities.

Figure 2 **Phase 1: Financial and Manpower Resource Allocation**



4. Preparation and Approval of Expenditure Estimates

In the Estimates phase, ministry allocations are assigned to specific programs and activities, based on information generated through the ministry's planning and budgeting processes. Concurrently, the Treasurer prepares the Ontario Budget. Each ministry's spending plans are tabled in the Legislature in the form of Expenditure Estimates normally after the Treasurer makes his Budget speech. This phase of the process consists of two steps.

1. Preparation of Estimates
2. Legislative approval.

Participants include: Cabinet, the Policy and Priorities Board, the Ministry of Treasury and Economics and Management Board of Cabinet. Ministry managers play a key role in the preparation of the Estimates.

Step 1: Preparation of Estimates
Following Cabinet confirmation of ministry funding allocations for the coming fiscal year, the Management Board Secretariat requests ministries to submit their proposed Estimates for the year. These "Estimates submissions" provide the basis for developing the formal expenditure Estimates that are presented to the Legislature (often called the "Printed Estimates"). They are prepared in accordance with specific guidelines issued by the Secretariat, indicating the kind of information to be supplied and the format in which it should be presented.

The Estimates submissions contain information pertaining to internal planning and control, as well as the financial data that are the core of the Estimates. An important part of this information is an abstract of the results to be achieved through the use of the requested funds. In the abstract, ministries describe the planned program results to be achieved during the course of the coming fiscal year. More detailed information on the results portion of the Estimates submission is contained in the booklet: "Manager's Guidelines to Managing By Results."

Each ministry's submission must be approved by Management Board of Cabinet before the Printed Estimates are prepared. The approval procedure begins with a review of all the submissions by the Management Board Secretariat. The purpose of the review is to ensure that submissions conform to the fiscal strategy, expenditure targets, and manpower strategy approved by Cabinet, and to identify any issues that

need to be resolved before the Printed Estimates are prepared. Such issues may relate to a ministry's statement of results to be achieved, the amount of funds requested, or potential conflicts with Government policy. The Secretariat highlights these concerns for presentation to Management Board.

Management Board has responsibility for approving ministry Estimates on behalf of Cabinet. The Board holds a series of meetings, in the course of which, each ministry's submission is presented for approval. Often, the Deputy Minister and senior managers are required to attend and answer any questions that Board members may have about the submission. Sometimes it is necessary to refer outstanding policy issues to the Policy and Priorities Board for resolution before final decisions on the Estimates are made.

As each ministry's submission is reviewed by Management Board, the Board's decisions are recorded in the Minutes of the meeting; subsequently, the ministry is notified by a certified copy of the Minute. Usually, Management Board Minutes are confirmed by Cabinet at its next meeting. This represents the Government's approval of the ministry's Estimates. Ministries are then requested to prepare the Printed Expenditure Estimates, in cooperation with the Management Board Secretariat.

The preparation and approval of ministry submissions take place during the fall and winter months.

Step 2: Legislative Approval

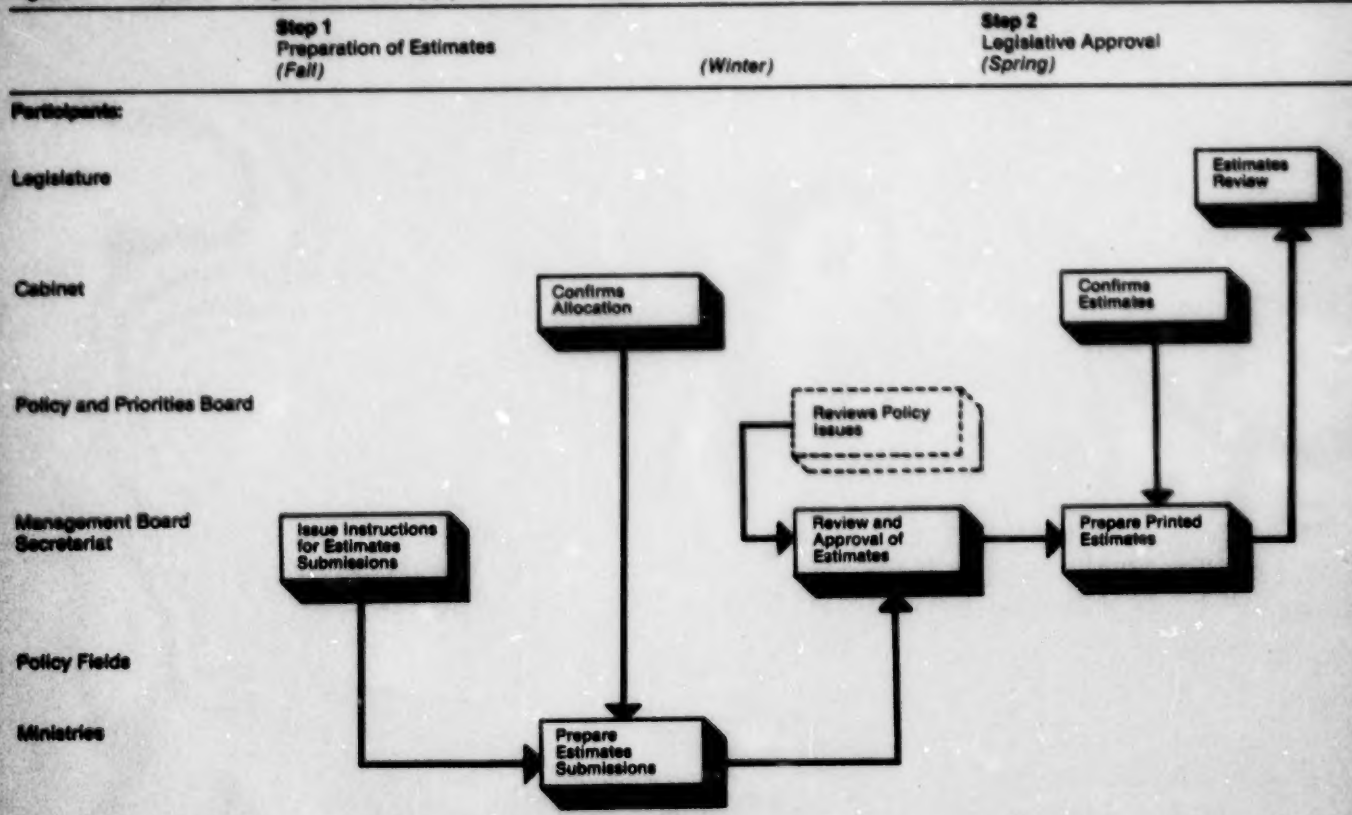
The Government's Estimates are referred for detailed review to either a Standing Committee of the Legislature or the Legislature sitting as the Committee of Supply. The Standing Committee or Committee of Supply reports to the Legislature its resolutions that votes and items be appropriated in set amounts.

The Legislature concurs, but formal authorization for the use of funds is granted only through the passing of the Supply Act. This takes place after all votes and items have received legislative concurrence. In the meantime, payments may be made from the appropriations upon the Legislature's adoption of a Motion of Interim Supply.

Ministries are not notified individually that their Estimates have received formal legislative approval. Ministers and senior ministry officials are aware of the progress of events through personal attendance in the Legislature, in Committee, or by reference to the "Votes and Proceedings," the official record of the Legislature's transacted business.

The Estimates phase is summarized in Figure 3.

Figure 3 Phase 2: Preparation and Approval of Estimates



The Role of Ministry Managers

Ministry managers clearly have a vital role in the preparation of the Government's spending Estimates. Managers are responsible for compiling and presenting all the information required. They are also responsible for structuring program plans so that they complement the Government's overall fiscal strategy and policy direction.

Effective planning and budgeting processes usually facilitate the smooth passage of submissions through the approval sequence and may enhance the ministry's ability to obtain the appropriate funds for its programs and activities.

In preparing Estimates submissions, managers should be aware of the importance of defining results to be achieved in terms that are both realistic and verifiable. Managers who prepare the Results Abstracts that are included in the submission should understand that they are making a commitment to achieve the results specified during the coming fiscal year, and that they will be held to account for actual performance at year-end.

Senior ministry managers must be prepared to support and explain funding requests contained in the submission, in the event that these are questioned by Management Board. If there are delays in obtaining final approval, it may be necessary to develop interim program and spending plans, pending confirmation of the final funding decisions.

5. In-Year Monitoring

The Government's operating environment sometimes necessitates adjustments in ministry spending plans. For example, ministries may find that fluctuating client demand results in underspending in some program areas and a shortfall of funds in others; or policy initiatives may be called for, for which no funding has been provided; or revenues may fall short of forecasts; or the Government may impose constaints on spending. Some changes may be government-wide in scope. Others may be unique to one ministry or program.

The expenditure management process is responsive to changing conditions, by requiring in-year monitoring of the approved Estimates and allowing for adjustments. Primary responsibility for monitoring rests with individual ministries, Management Board, and the Ministry of Treasury and Economics. The Policy and Priorities Board also reassesses expenditure targets in the light of current economic conditions and expenditure priorities. Changes in ministry Estimates are subject to the approval of Management Board, and significant increases in funding may require the preparation of Supplementary Estimates. Supplementary Estimates are prepared to seek authorization for major expenditure increases over and above the original Printed Estimates amounts. They must be approved by the Legislature.

Monitoring by Ministries

Scheduling of expenditures and results for each month of the year, (commonly called "calendarization") normally occurs once ministries have received notification that their Estimates have been approved by Management Board.

The calendarization provides the basis for financial reporting during the year within each ministry and to central agencies, such as Management Board and the Ministry of Treasury and Economics, through the Financial Information System. Ministry calendarization of expenditures and revenues is of particular value to Treasury and Economics in carrying out its corporate responsibility for managing the cash flow of the Government over the fiscal year.

Revised calendarizations are prepared each month that reflect any authorized or projected changes in funding (either increases, decreases or reallocations among programs). Ministries also prepare actual variance reports, identifying areas in which expenditures are above or below the level forecasted for the period and explaining the reasons for the difference. These monthly reports form part of the government-wide Financial Information System. In addition, ministries are required to maintain an internal reporting system, which compares for each program the actual results achieved during a given period with the results anticipated for that period in the original plan. Through these reporting procedures, ministry managers maintain control over expenditures and performance. The major steps involved in effective management reporting are set out in the booklet in this series that deals with Operational Planning, Budgeting, and Reporting.

Management Board Submissions

Ministry monitoring may lead to a reassessment of priorities and operational plans, both to adapt to changing circumstances and to avert future problems or take advantage of new opportunities. If changes are called for in a ministry's Estimates or in the results to be achieved by particular programs or activities, the ministry must prepare a formal submission to Management Board, requesting approval of such changes. As noted previously, if significant increases in funding are required, it may be necessary to obtain legislative approval through the tabling of Supplementary Estimates. At times when the Legislature is not in session, or when a relatively minor increase to the Estimates is required, a Management Board Order may be issued instead of Supplementary Estimates to authorize the increase. When the amount required is uncertain, an Authorization for Commitment is used, until the appropriation is exhausted, or the amount is clearly ascertained, at which time it is followed up by the formal Management Board Order.

Monitoring by Central Agencies

As well as relying on ministry reporting through the Financial Information System, the Management Board Secretariat and the Ministry of Treasury and Economics carry out independent monitoring activities throughout the year. The Secretariat monitors manpower and expenditure performance on a monthly basis. The Ministry of Treasury and Economics monitors fiscal performance on a monthly basis with respect to revenue, expenditures, and net cash requirements. Each quarter, Management Board submits a General Management Report to Cabinet, which provides information on expenditures, manpower, and other areas of special interest. Also, the Ministry of Treasury and Economics publishes a quarterly update on fiscal performance in the Ontario Finances report.

Periodically, the Policy and Priorities Board reassesses the Government's expenditure targets and considers the need for in-year financial or manpower constraint programs. After a constraint program has been approved by Cabinet, Management Board coordinates its implementation. Constraints encourage realignment of the ministry's existing resource base to conform to the Government's priorities. When a constraint program is being implemented, ministry managers should reassess their priorities and operational plans to determine the probable impact of the constraint

program. The information regarding application of constraints should be included in the ministry's monthly variance reporting to Treasury, and in results reporting to Management Board. It is essential that ministries have appropriate contingency planning mechanisms in place to ensure that program priorities are maintained and client needs are met, while at the same time reducing expenditures or manpower.

Ministry Policy Initiatives

In the course of the fiscal year, a ministry may wish to initiate or respond to a change in policy that affects the funding and manpower allocations set out in the Estimates. Such a change must receive certain approvals before it is implemented. It may also be necessary to amend or prepare new legislation giving effect to the policy change.

The ministry first prepares a proposal for review by the respective Policy Field Cabinet Committee. Management Board Secretariat and the Ministry of Treasury and Economics provide comments on the financial, administrative, economic and fiscal implications of the proposal. If the policy is supported by the Policy Field, it is referred to Management Board for financial and manpower consideration and then it proceeds to Cabinet. If Cabinet approves the proposal, the ministry proceeds to seek approval for the implementation plan and required resources from Management Board.

The Role of Ministry Managers

Again, ministry managers are key participants in the in-year monitoring phase of the expenditure management process. They are responsible for delivering programs in accordance with approved Estimates and results abstracts.

They are responsible for meeting reporting requirements with respect to expenditures and results achieved throughout the fiscal year. As well, they are expected to review priorities and operational plans in the light of current conditions and anticipated developments, identify changes that are required, assess the impact of change on program expenditures and performance, and adjust programs to implement Government constraints. The effective fulfillment of these resopnsibilities is crucial to the maintenance of satisfactory control over spending and performance during the fiscal year.

6. Year-End Reporting

Accountability for the Government's use of funds is effected through a reporting system that covers all levels of responsibility. The various types of reports and the purposes they serve are summarized as follows:

Type of Report	Purpose
Ministry Results Reports	Accountability to senior ministry management and Management Board of Cabinet
Ministry Annual Reports	Accountability to the Legislature and the public at large
Public Accounts	Accountability to the Legislature for monies spent
Provincial Auditor's Annual Report	Accountability to the Legislature for obtaining value for money, probity, prudence, and legality in government expenditures.

Each type of report is discussed in more detail below.

Ministry Results Reporting

Ministry results reports identify the results actually achieved during the fiscal year. They are prepared by ministry managers for review by senior management, and are forwarded to Management Board for comparison with the results planned when the Estimates were prepared. Deputy ministers and senior managers may be asked to attend a meeting of Management Board for the purpose of explaining or discussing aspects of ministry performance and factors affecting the achievement of results.

Ministry Annual Reports

Most ministries are required to submit an annual report to the Legislature describing their activities during the past fiscal year. The Legislature may refer reports to the Public Accounts Committee for review. Copies also are made available to the media and the public through the Ontario Government Publications Centre.

Public Accounts

The Treasurer is required to direct the preparation of the Public Accounts each fiscal year. Senior financial officers in each ministry are required to assist the Treasurer in meeting this requirement by providing him with the necessary financial information.

The Treasurer compiles the Public Accounts for tabling in the Legislature. They are then referred to the Public Accounts Committee for detailed examination. This Committee focuses attention on areas of concern to the Legislative Assembly. It is empowered to call officials of ministries and agencies to account for the legality and prudence of government expenditures and the establishment and adherence to appropriate administrative policies and procedures. Individual ministry managers may be asked to appear before the Committee to explain spending decisions.

The Ministry of Treasury and Economics also publishes the annual Financial Report of the Province, which is available to the public. It summarizes the Province's financial statements and major aspects of Ontario's finances.

Provincial Auditor's Annual Report

The Provincial Auditor annually examines the accounts of the Province and of provincial agencies of the Crown. All ministries are subject to audit. In addition to performing the traditional attest and compliance functions of government auditing, the Auditor has the mandate to examine accounts with regard to the economy and efficiency of expenditures, and the systems in place to judge the effectiveness of programs. He may then report to the Legislature his findings on these "value for money" issues.

The Provincial Auditor's Annual Report is tabled in the Legislature and referred to the Public Accounts Committee for review. The Committee studies the report in detail and may request senior officials to appear before it to explain their administrative policies and actions.

The Role of Ministry Managers

Ministry managers are involved in every aspect of year-end reporting. They supply essential information for inclusion in results reports and reports tabled in the Legislature. They may be called upon personally to explain that information or account for their decisions during the previous fiscal year. Managers should therefore be thoroughly informed about spending and program decisions in their area of responsibility and they should be prepared to explain their actions.

7. Conclusion

Ontario's expenditure management process focusses on the principles of Ontario's Management Philosophy, particularly emphasizing accountability and achieving results. It also requires managers to develop strong capabilities in applying ministry planning and control processes.

The process links the various levels of responsibility — ministry, central agency, and Cabinet — drawing together the individual participants within a cohesive and continuous decision-making framework. The process provides frequent opportunities for innovation, consultation, and adjustment to changing conditions. At the same time, this flexibility is balanced by maintaining appropriate controls over government spending. In this way, it serves the dual purpose of enabling the Government to pursue its goals in response to changing public needs and satisfying the requirement for responsible use of public funds.

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